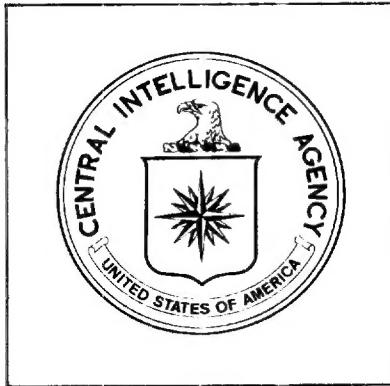


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STAFF NOTES:

HR.

Soviet Union Eastern Europe

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SOVIET UNION - EASTERN EUROPE

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Soviet-Egyptian Economic Talks

After more than a week of discussions, the head of the Egyptian economic delegation left Moscow on Tuesday with little to show for his efforts. The Soviets appear to have taken a tough line on the economic front as a way of keeping the pressure on Sadat.

Cairo will be particularly disappointed at the absence of progress on rescheduling payments of Egypt's military debts to the USSR. Until last year, Moscow had deferred most payments on these debts. Although four sessions in Moscow were devoted to the issue, press reports indicate that all the Egyptians got was a Soviet commitment to "study" their proposals. One influential Egyptian commentator indicated that resolution of the debt question must await party boss Brezhnev's elusive visit to Cairo.

The two sides failed to agree on the extent of Soviet participation in Egyptian industrial development, and negotiations on long-term economic cooperation also became snagged. These discussions will be resumed at a future date. The Egyptian trade minister has apparently remained in Moscow to continue negotiating the annual accord on trade.

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Soviet Handling of CEMA Price Increases

Moscow has for the first time publicly acknowledged that there will be price increases for raw materials and finished good in intra-CEMA trade this year. The Soviets, who have been gloating about the contrast between inflation in the West and price stability in the East, are clearly embarrassed by the price rises. They are also concerned about the potential political impact in Eastern Europe.

The admission appears in an interview with the East German CEMA representative that originally appeared in the East German press and was picked up by Tass. The general tone was defensive, stressing that the CEMA countries had not been affected by the sharp inflation in world market prices for fuel and raw materials through 1974 and that even with the increase effective this year, the East Europeans will still be paying considerably less than capitalist countries for their commodities.

The East German also said that the immediate impact of the price hikes on retail trade, rents, and public transport will be softened by increased state subsidies, but he did not rule out eventual price hikes to reflect the CEMA price changes.

In reprinting selections from the interview, the Soviets chose to ignore a statement by the German that prices for raw materials will rise more sharply than those for manufactured goods and his call for greater productivity by workers to keep domestic prices down.

While adjustment to the new situation is going to require the East Europeans to make some sacrifices--probably including lower growth rates--the Soviets

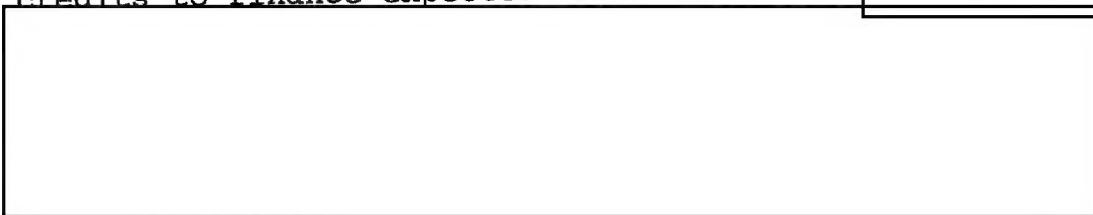
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are attempting to minimize the economic and political side effects. Recent articles in the Hungarian press, for example, indicate that Moscow is willing to provide somewhat larger amounts of raw materials on relatively favorable terms and to extend long-term credits to finance expected trade deficits.

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Hungarian Party Congress Preparations

The Party Central Committee and Control Committee met jointly on February 26 and approved the major reports that will be given at the party congress. Budapest also announced for the first time that the congress will convene on March 17.

The gathering approved the Central Committee report--which Kadar will deliver at the congress--and the new party program written by a committee headed by Kadar. The holding of the meeting just three weeks before the congress, however, suggests there may have been some difficulties.

Drafting the party program may have been the most troublesome task. Kadar revealed last September that progress was slow, but gave no explanation. Ideological issues and their implications for policy may have posed the biggest problems. The program has not yet been released, but it is likely to be a relatively orthodox projection of Hungary's Communist future designed to placate those who feel ideology has been slighted. At the same time, Kadar has probably insisted on including wording that signals a continuation of his conciliatory domestic policies for the near future.

The session may also have reviewed economic developments in light of the widespread upward adjustment of intra-CEMA trading prices. The party congress is committed to ratifying the guidelines for the next five year economic plan.

Some personnel changes may also have been approved. A Hungarian journalist recently asserted it had already been decided to make top-level changes at the party congress. He refused to divulge any names, saying only that Kadar definitely would stay on the job.

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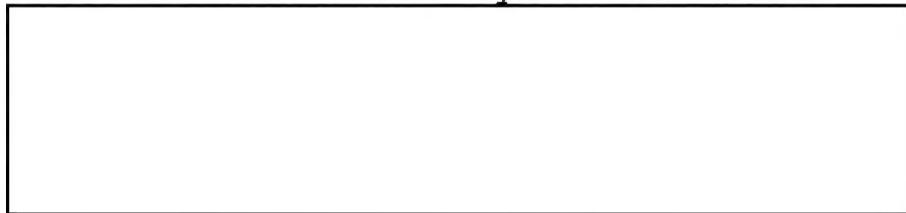
East Germany--Another Protest to Bonn

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The East Germans lodged a protest with Bonn last Wednesday over the decision to establish a European Community vocational training center in West Berlin. The protest comes at a time when the inter-German citizenship controversy is still very much alive [REDACTED] The two issues could jeopardize further improvement in relations between the Germanies.

The protest took the relatively modest form of an oral statement delivered to a middle-level official of the Chancellery. As did earlier statements by the Soviets to the West Germans and the Western powers, Pankow claimed that the center violates the 1971 Quadripartite Agreement. The cautious seconding of the Soviets apparently is an effort to get East Berlin's position on record without escalating the issue.

There has been no indication that the East Germans will attempt to interfere with West Berlin access routes, as they did last summer to protest the opening of Federal Environmental Office in West Berlin. As a result of press leaks about the Soviet protest, however, the issue already has heated up more than either side apparently intended.

The East German press, muted since late last year, sharpened its polemics with Bonn last month over the citizenship issue and has now picked up on the EC office. Several articles have questioned whether Bonn actually desires a further normalization of relations which Pankow says is "now within reach."



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Yugoslav Plenum Orders Attack
on Malaise of the Rank and File

The Yugoslav plenum on Tuesday produced new directives to encourage the largely passive party members to support more actively regime programs and to counter internal deviations and foreign propaganda. A major theme, cutting across all the plenum's recommendations, was the importance of more effective political indoctrination of party members, and the need to spot and remove unfit Communists.

For the past four years, Tito has concentrated on re-imposing a strong central rule over regional parties. He has succeeded, but the resulting system of command-by-directive has, predictably, stymied initiative in the lower party organizations.

Tito's closing speech at the plenum suggests he now fears that the malaise of party members may provide fertile ground for factional rivalries and for confidence-eroding propaganda from abroad. He cited the need for identifying all individuals who would change the social system, presumably including pro-Soviet Cominformists.

The plenum prescribed the following remedies:

- An expansion of the party membership, with an influx of new blood from under-represented industrial and agricultural workers.
- More action by party members in front groups, particularly the mass organization, the Socialist Alliance.

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--The formation of party cells in villages and enterprises where none currently exist.

--An improved system of information exchange between local cells and the party leadership.

In an important personnel action, the plenum appointed nine new members to the 41-man Presidium. Of the nine, six are junior members of the powerful party executive committee that oversees party activity on a daily basis. The move should strengthen the Presidium, which is largely made up of officials who have other pressing concerns.

Tito strongly attacked the Western press, which he said "stupidly" defends Yugoslav intellectuals and cultivates a psychosis about an alleged Soviet invasion. Tito said he was confident that the Soviets "have no thought of attacking Yugoslavia" and that Yugoslavia never has, and does not now, fear such an attack.

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Serb Party Leaders Warned About
Security Lags in the Republic

A meeting of the Serb party Presidium on February 21 heard some stern admonitions on the need for upgrading both the defense and internal security systems in the republic.

The most authoritative warning came from Colonel General Ivan Kukoc, a member of the federal party executive committee, who said that "dogmatic forces"--read, Cominformists--were trying to spread doubts about Yugoslavia's paramilitary defense strategy. The all-people's defense was introduced in 1967 after an unfavorable assessment of the Yugoslav army's ability to halt a Soviet invasion. Kukoc alleged that the current subversive effort was part of a design to influence Yugoslavia to submit itself to "one of the global structures."

Other spokesmen from the republic defense apparatus cited "attempts to get us to submit to the strategic needs of the great powers." They called for tighter internal security checks and a more active expansion of military defense in the republic. Available accounts of the responses by political leaders of Serbia indicated they were willing to press for action on these proposals.

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Eastern Europe: Chemical Equipment and Technology Orders from the West in 1974

East European orders of chemical equipment and technology from Western countries in 1974 were valued at about \$420 million, almost one and a half times the annual average during 1970-73. Most of the increase probably can be attributed to higher prices of chemical equipment.

Western technology and equipment are essential to the development of Eastern Europe's expanding chemical industry. Plants purchased by Poland since 1970 will make particularly important contributions to the country's synthetic fiber output, which is planned to reach 254,000 tons per year in 1980. Romanian purchases of chemical equipment and technology from Western countries since 1970 have totaled at least \$356 million. Fertilizer plants already purchased from Western countries or currently up for bids will provide the additional capacity required to meet Romania's 1980 production goal of 3.4 million tons (nutrient). About one million tons of nitrogen fertilizer (nutrient) should be available for export.

Bulgaria and Czechoslovakia are stressing plastics production during 1976-80; increased output will be made possible by the purchase of western plants. Hungary's orders during 1970-73--totaling about \$144 million--included enough equipment and technology for plastics and synthetic fiber production not only to satisfy domestic requirements but also to allow export of some products. Purchases in 1974 were minimal.

In recent years East European purchases from the US have, for the most part, been limited to relatively small amounts of technology. Romania

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Table 1

Major Western Suppliers of Chemical Equipment to Eastern Europe in 1974

| <u>Supplier</u> | <u>Estimated Value</u> \$ million |
|-----------------|--------------------------------------|
| France | 105 |
| Austria | 99 |
| West Germany | 84 |
| Japan | 83 |
| United Kingdom | 20 |
| United States | 17 |
| Italy | <u>12</u> |
| TOTAL | \$420 |

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has been an exception--during 1970-74 about one fourth its total purchases from the West were from the US.

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During 1976-80 the East European countries will continue to build plants requiring Western equipment and technology. Negotiations between several of these countries and Western suppliers are reportedly under way. The countries, however, face increasing problems in paying for purchases in hard currency. As a result, they are interested in joint ventures and in arrangements whereby at least partial payment can be made in product. Future purchases are likely to be determined by the credit terms offered by the sellers

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Table II

Type and Value of East European Orders
of Western Chemical Equipment in 1974

| <u>Purchaser</u> | <u>Type of Plant</u> | <u>Estimated Value*</u> \$ million |
|------------------|---|---------------------------------------|
| Bulgaria | plastics, synthetic fiber intermediates, soda ash | 63 |
| Czechoslovakia | plastics, synthetic fibers | 59 |
| East Germany | synthetic fiber intermediate | 57 |
| Hungary | synthetic fibers | 4 |
| Poland | synthetic fibers, plastics, chlorine | 221 |
| Romania | plastics, ammonia, bio-protein feedstock | 16 |
| TOTAL | | 420 |

* Values include small amounts for purchase of other types of chemical equipment.

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